

Message Text

CONFIDENTIAL

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ACTION EA-09

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FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 1705

C O N F I D E N T I A L KUALA LUMPUR 6617

E.O. 11652: GDS
TAGS: EFIN, MY, US
SUBJ: INTERIM AGREEMENT REACHED BY EXXON AND PETRONAS

REF: KUALA LUMPUR 6119

1. BEGIN LIMITED OFFICIAL USE. EXXON AND PETRONAS HAVE NOW CONCLUDED INTERIM AGREEMENT ALONG LINES REPORTED PARA 3 REFTEL, WITH EXXON SUCCESSFULLY AVOIDING FORMULATIONS IN INTERIM AGREEMENT WHICH MIGHT HAVE BEEN PROBLEM IN NEGOTIATING PRODUCTION SHARING CONTRACT (PSC). NOTABLE UNDERTAKING BY PETRONAS IS TO TABLE DRAFT PSC VERY SOON, PERHAPS NEXT WEEK. END LIMITED OFFICIAL USE.

2. BEGIN UNCLASSIFIED. EXXON PRESS RELEASE NOVEMBER 10

ANNOUNCED ARRANGEMENT BETWEEN PETRONAS AND EXXON UNDER TERMS OF WHICH EXXON WILL CONTINUE OIL PRODUCTION FROM TEMBUNGO PLATFORM OFFSHORE SABAH WHILE PARTIES WORK ON DETAILS OF LONG-TERM PSC. ARRANGEMENT CONTEMPLATES FURTHER AGREEMENT ON WORK PROGRAMS LEADING TO ADDITIONAL PRODUCTION FROM TEMBUNGO. PRESS RELEASE ALSO REFERS INDIRECTLY TO EARLIER NYT ARTICLE (REFTEL) ON PETROLEUM INDUSTRY IN MALAYSIA, NOTING THAT EXXON DOES NOT BELIEVE IN NEGOTIATING IN NEWSPAPERS AND WHILE NOT RESPONSIBLE FOR ARTICLE, REGRETS ANY MISUNDERSTANDING. RELEASE
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CONCLUDES WITH REFERENCE TO CORDIAL RELATIONS WITH PETRONAS

AND OPTIMISM THAT INTERIM ARRANGEMENT WILL LEAD TO EARLY NEGOTIATIONS WITH PETRONAS ON LONG-TERM PSC.

3. ARTICLE ON EXXON ANNOUNCEMENT PLAYED FRONT PAGE NST NOVEMBER 11, ERRONEOUSLY SUGGESTING THAT AGREEMENT ALREADY STATED IN PARLIAMENT THAT OIL COMPANIES WHICH HAVE SUSPENDED EXPLORATION EXPECTED RESUME OPERATIONS ONCE AGREEMENTS REACHED ON PRODUCTION SHARING. END UNCLASSIFIED.

4. BEGIN CONFIDENTIAL. COMMENT: FROM OPERATIONAL STANDPOINT, EXXON VIEWS INTERIM AGREEMENT AS FORMALIZATION OF EXISTING SITUATION. WHILE SOME SLIGHT (10-15 PERCENT) INCREASE IN PRESENT SABAH PRODUCTION (4,000 BPD) MIGHT OCCUR, ADDITIONAL DEVELOPMENT DRILLING FROM PLATFORM WILL NOT BE UNDERTAKEN IN ABSENCE SIDE-AGREEMENTS UNDER WHICH COSTS WOULD BE COVERED FROM PETRONAS' PORTION OF INTERIM AGREEMENT REVENUES. IN ANY CASE, TOTAL PRODUCTION FROM PLATFORM NOW EXPECTED TO BE LESS THAN ORIGINAL 20,000 BPD, BECAUSE OF DIFFICULT GEOLOGY. EXXON, OF COURSE, DOES NOT INTEND RESUME EXPLORATION OR DEVELOPMENT ACTIVITIES OFF PENINSULAR MALAYSIA AT THIS TIME AND WILL MAKE NO MAJOR ADDITIONAL INVESTMENTS UNTIL AGREEMENT REACHED ON LONG-TERM PSC. WE UNDERSTAND FROM OTHER SOURCES THAT PETRONAS NOW NEGOTIATING INTERIM AGREEMENT WITH SHELL. IN BROADER PERSPECTIVE IT APPEARS PETRONAS CHAIRMAN RAZALEIGH NEEDS INTERIM AGREEMENTS TO ESTABLISH CREDENTIALS OF PETRONAS (WHICH ONE YEAR OLD OCTOBER 1), TO ESTABLISH SOUNDER LEGAL BASIS FOR RECEIPT OF REVENUES WHICH REPORTEDLY NEEDED IN CONNECTION WITH TRANSFER OF PETROLEUM RIGHTS FROM STATES TO PETRONAS AND TO RELIEVE PRESSURE FROM OTHER ELEMENTS OF GOM WHICH SEE EARLY RESOLUTION OF PETROLEUM IMBROGLIO AS PARTIAL SOLUTION TO REVENUE NEEDS DURING TERM OF THIRD MALAYSIA PLAN. END COMMENT. END CONFIDENTIAL. UNDERHILL

REACHED ON WORK PROGRAM. ARTICLE ALSO REPORTS THAT PM RAZAK

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